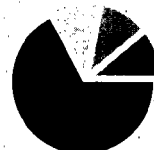


A COMPONENT UNIT OF WASHINGTON COUNTY, UTAH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

**WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS**



KEMP BURDICK
KEMP BURDICK HINTON & HALL L.C.
CPA'S & ADVISORS

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KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

Independent Auditors' Report on the Basic Financial Statements

Superintendent and Members of the Board
Ash Creek Special Service District
La Verkin, UT 84745

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT COX
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

We have audited the accompanying basic financial statements of Ash Creek Special Service District, a component unit of Washington County, as of December 31, 2005, and for the year then ended, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Ash Creek Special Service District, as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued reports dated April 21, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and to report the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis information on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
April 21, 2006

ASH CREEK SPECIAL SERVICE DISTRICT

Management's Discussion and Analysis

As management of Ash Creek Special Service District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements and notes.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$14,299,796 (net assets). Of this amount, \$2,025,148 (unrestricted net assets) may be used to meet the District's ongoing obligations to customers, employees, and creditors.

The District's total net assets increased during this past fiscal year by \$2,154,075. Most of this is attributable to operating revenues (sewer service fees), and non operating revenues (impact fees).

The District acquired capital assets during the past fiscal year of \$769,711, which were financed with impact fee funds and sewer service fees.

Overview of the Financial Statements

The financial statements consist of three separate statements, which are similar to a private-sector business. The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenue, Expenses, and Changes in Net Assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected fees charged and earned, unused vacation leave).

The Statement of Cash Flows presents the activities of the District on a cash-received and cash-paid basis. This statement shows how cash was spent and reconciles the change in the cash accounts for the District from the prior year to the current year.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the District financial position. Assets exceeded liabilities by \$14,299,796 at the close of the most recent fiscal year.

The following tables summarize the information presented in the financial statements:

	Net Assets		
	2005	2004	Change
Current assets	\$ 2,450,707	\$ 3,784,336	\$(1,333,629)
Capital assets	14,522,627	11,107,222	3,415,405
Total assets	<u>16,973,334</u>	<u>14,891,558</u>	<u>2,081,776</u>
Current liabilities	178,538	126,624	51,914
Long-term liabilities	2,495,000	2,619,213	(124,213)
Total liabilities	<u>2,673,538</u>	<u>2,745,837</u>	<u>(72,299)</u>
Net assets invested in capital assets, net of related debt	8,931,712	8,381,222	550,490
Restricted net assets	3,342,936	2,169,701	1,173,235
Unrestricted net assets	2,025,148	1,594,798	430,350
Net assets	<u>\$14,299,796</u>	<u>\$12,145,721</u>	<u>\$ 2,154,075</u>

	Change in Net Assets		
Operating revenues	\$ 1,415,156	\$ 1,309,662	\$ 105,494
Operating expenses	1,204,413	1,109,218	95,195
Operating income (loss)	<u>210,743</u>	<u>200,444</u>	<u>10,299</u>
Nonoperating revenues (expenses)	1,943,332	974,388	968,944
Net income	<u>2,154,075</u>	<u>1,174,832</u>	<u>979,243</u>
Net assets, beginning of year	12,145,721	10,970,889	1,174,832
Net assets, end of year	<u>\$14,299,796</u>	<u>\$12,145,721</u>	<u>\$ 2,154,075</u>

The largest portion of the District's total net assets (62%) reflects its investments in capital assets (e.g. land, buildings, and sewer improvements, and machinery, and equipment) less any related debt used to acquire those assets that is still outstanding (e.g. State Water Quality Bonding). The District uses these capital assets to provide service to participating cities and customers; consequently, these assets are not available for future spending. Although the District's investment in capital assets in reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional amount of \$365,021 is restricted for the repayment of bonds and \$2,977,915 is restricted for impact fee uses. The remaining balance of unrestricted net assets \$2,025,148 may be used to meet the District's ongoing obligations.

In comparison with the prior year, the following item should be noted:

The District's non-operating revenue, which consists primarily of impact fees, increased by \$968,944 or 99.4%. This increase was attributable to a very high growth rate throughout the District and the January 11, 2005 adoption of a new impact fee schedule that raised impact fees approximately 34%.

The District's operating expenses increased by \$95,195 or 7.9%. This increase was mostly attributable to increases in insurance, fuel and employee expenses, but is significantly less than the increase from 2003 to 2004 of \$176,954 or 15.5%.

As discussed in the next section, capital assets increased by \$769,711 with no increase to long-term debt.

Capital Asset and Debt Administration

The District acquired capital assets totaling \$769,711 most of which was attributable to the acquisition of new property, sewer collection system upgrades, and aeration equipment for lagoon #4. These acquisitions were financed primarily with the use of sewer service fees and when allowable by the use of impact fees. At the end of the current fiscal year, the District had total long term of \$2,495,000. All long term debt is scheduled to be retired by February 2022 (see the notes to the financial statements for more information).

Economic Factors and Next Year's Budgets and Rates

The District prepared its 2006 budget anticipating a 6.0% overall growth in sewer service revenues, and a 5.0% growth in impact fee revenues. The increase in impact fee revenues will mostly be driven a high growth rate in the District. However, the final months of 2005 showed that the growth in the District was starting to slow.

The District anticipates that construction and administrative costs will continue to increase. The District anticipated an overall increase in expenses of 6.6%

Requests for Information

This financial report is designed to provide a general overview of the District finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Darrel Humphries at 111 South Main Street, PO Box 361, LaVerkin, UT 84745.

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Statement of Net Assets
December 31, 2005

	<u>Proprietary Fund Type</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,877,842
Accounts receivable	207,844
Total current assets	<u>2,085,686</u>
Noncurrent assets:	
Restricted cash and cash equivalents	3,342,936
Capital assets:	
Land and easements	5,296,995
Buildings	53,225
Office improvements	14,328
Farm equipment	188,379
Equipment	742,489
Sewer system and equipment	10,173,500
Less accumulated depreciation	<u>(4,924,204)</u>
Total capital assets (net of accumulated depreciation)	<u>11,544,712</u>
Total noncurrent assets	<u>14,887,648</u>
Total assets	<u>16,973,334</u>
Liabilities	
Current liabilities:	
Accounts payable	53,481
Accrued liabilities	7,057
Revenue bond payable - current	118,000
Total current liabilities	<u>178,538</u>
Noncurrent liabilities:	
Revenue bond payable	2,613,000
Less current portion	<u>(118,000)</u>
Total noncurrent liabilities	<u>2,495,000</u>
Total liabilities	<u>2,673,538</u>
Net Assets	
Invested in capital assets, net of related debt	8,931,712
Restricted	3,342,936
Unrestricted	<u>2,025,148</u>
Total net assets	<u>\$ 14,299,796</u>

The accompanying notes are an integral part of the financial statements.

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2005

	Proprietary Fund Type
Operating revenues	
Charges for sales and services:	
Sewer charges	\$ 1,368,433
Other services and revenues	46,723
Total operating revenues	<u>1,415,156</u>
Operating expenses	
Depreciation	332,221
Employee benefits	150,262
Equipment rent	2,200
Fuel	19,608
Insurance	38,788
Miscellaneous	2,269
Office expense	7,318
Payroll taxes	29,987
Power	99,086
Pretreatment costs	2,326
Professional fees	26,028
Repairs and maintenance	106,831
Wages	387,489
Total operating expenses	<u>1,204,413</u>
Operating income	<u>210,743</u>
Non-operating income (expenses)	
Impact fees	1,875,600
Farm net income	31,376
Investment earnings	145,396
Interest expense	(109,040)
Total non-operating revenue (expenses)	<u>1,943,332</u>
Change in net assets	2,154,075
Total net assets--beginning	<u>12,145,721</u>
Total net assets--ending	<u><u>\$ 14,299,796</u></u>

The accompanying notes are an integral part of the financial statements.

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Statement of Cash Flows
For the Year Ended December 31, 2005

	<u>Proprietary Fund Type</u>
Cash flows from operating activities:	
Receipts from customers and users	\$ 1,395,552
Payments to suppliers and others	(451,059)
Payments to employees	(380,432)
Cash flows from operating activities	<u>564,061</u>
Cash flows from investing activities:	
Farm net income	31,376
Interest received	<u>145,396</u>
Cash flows from investing activities	<u>176,772</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(769,711)
Impact fees	1,875,600
Principal paid on capital debt	(113,000)
Interest paid on capital debt	<u>(109,040)</u>
Cash flows from capital and related financing activities	<u>883,849</u>
Net cash flows	1,624,682
Cash and cash equivalents at beginning of year	<u>3,596,096</u>
Cash and cash equivalents at end of year	<u><u>\$ 5,220,778</u></u>
Reconciliation of operating income to cash flows from operating activities:	
Net operating income	\$ 210,743
Adjustments to reconcile net operating income to cash flows from operating activities:	
Depreciation	332,221
(Increase) decrease in accounts receivable	(19,604)
Increase (decrease) in accounts payable	33,644
Increase (decrease) in accrued liabilities	<u>7,057</u>
Cash flows from operating activities	<u><u>\$ 564,061</u></u>

The accompanying notes are an integral part of the financial statements.

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Notes to the Financial Statements
December 31, 2005

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Ash Creek Special Service District (the District) conform with generally accepted accounting principles as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Reporting Entity - The District was organized on December 17, 1979 by the Washington County Commission to provide a sewer system to the communities of Hurricane, La Verkin and Toquerville, Utah. The District began billing users in these communities in 1982. The sewer system was financed through grants from the Environmental Protection Agency (EPA) and the Farmers Home Administration (FHA), along with two 40 year loans from FHA and local hookup fees. During June 1988, the District refinanced the FHA loans with 20 year bonds acquired through Zions First National Bank. The existing sewer system in Hurricane was purchased by the District and merged into the new system. There are no other agencies or component units that should be associated with these financial statements. The District is classified as a component unit of Washington County.

Fund Accounting - The District's accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's only fund is a proprietary type that accounts for the District's sewer system operations.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The only fund of the District is an enterprise fund. The accrual basis of accounting is generally followed as revenues are from services that are susceptible to accrual and expenses are recorded when the liability is incurred. The District applies all applicable GASB pronouncements as well as FASB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Operating and Nonoperating - Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Notes to the Financial Statements
December 31, 2005

Note 1. Summary of Significant Accounting Policies, Continued

Budget Policy and Process - The District adopts an annual budget. The budget is prepared on the cash basis. The service district is required to submit the budget to the Utah State Auditor's Office after it has been adopted by the Board. Budgetary information has been amended during the year. Budget appropriations lapse at year-end.

Source of Revenues - Revenues are generated from the three communities within the District, which bill and collect monthly fees from residents of these communities.

Encumbrances - Encumbrance accounting is not used.

Cash and Cash Equivalents - The District's cash and cash equivalents are considered to be demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Inventory

The District's inventory of material and supplies is deemed to be immaterial, and therefore, no provision for inventory has been made in these financial statements.

Capital Assets

Fixed assets are carried at cost. Depreciation is computed using the straight-line method over the assets estimated useful lives as follows:

Furniture and equipment	5-7 years
Buildings and improvements	15-40 years
Sewer system	10-40 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Notes to the Financial Statements
December 31, 2005

Note 1. Summary of Significant Accounting Policies, Continued

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Net Assets - Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by other governments, creditors or grantors.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Risk Management

The District maintains insurance for general liability, auto liability and employee dishonesty through Bringham-Leavitt Insurance Agency and worker's compensation through Utah Local Government's Insurance Trust.

Note 2. Deposits and Investments

Deposits and investments of the District at December 31, 2005 consist of the following:

Deposits	
Cash in bank	\$ 65,089
Investments	
State treasurer's investment pool	5,155,689
	<u>\$ 5,220,778</u>

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Notes to the Financial Statements
December 31, 2005

Note 2. Deposits and Investments, Continued

A reconciliation of cash and investments as shown on the Statement of Net Assets is as follows:

Cash and cash equivalents	\$ 1,877,842
Restricted cash and cash equivalents	3,342,936
	<u>\$ 5,220,778</u>

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The District follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the District's deposit may not be returned to it. The District does not have a formal policy for custodial credit risk. As of December 31, 2005, \$107,778 of the District's bank balance of \$207,778 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Notes to the Financial Statements
December 31, 2005

Note 2. Deposits and Investments, Continued

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended.

The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Notes to the Financial Statements
December 31, 2005

Note 2. Deposits and Investments, Continued

As of December 31, 2005 the District had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Utah State Public Treasurer's Investment Fund	\$ 5,155,689	\$ 5,155,689	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ 5,155,689</u>	<u>\$ 5,155,689</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act.

At December 31, 2005 the District had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
Utah State Public Treasurer's Investment Fund	\$ 5,155,689	\$ -	\$ -	\$ -	\$ 5,155,689
Total Fair Value	<u>\$ 5,155,689</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,155,689</u>

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Notes to the Financial Statements
December 31, 2005

Note 3. Accounts Receivable

Accounts receivable at December 31, 2005 consists of the following:

	<u>0-30 Days</u>	<u>31-60 Days</u>	<u>Total</u>
Hurricane City	\$ 88,128	\$ 89,281	\$ 177,409
La Verkin City	24,898	-	24,898
Toquerville City	5,537	-	5,537
Total	<u>\$ 118,563</u>	<u>\$ 89,281</u>	<u>\$ 207,844</u>

Due to the nature of the accounts receivable, management does not consider an allowance for uncollectible accounts receivable necessary or material.

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Notes to the Financial Statements
December 31, 2005

Note 4. Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

	Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005
Capital assets, not being depreciated:				
Land and easements	\$ 5,141,995	\$ 155,000	\$ -	\$ 5,296,995
Total capital assets, not being depreciated	5,141,995	155,000	-	5,296,995
Capital assets, being depreciated:				
Buildings	53,225	-	-	53,225
Office improvements	4,297	10,031	-	14,328
Farm equipment	188,379	-	-	188,379
Equipment	720,048	22,441	-	742,489
Sewer system	9,591,261	582,239	-	10,173,500
Total capital assets, being depreciated	10,557,210	614,711	-	11,171,921
Less: accumulated depreciation for:				
Buildings	(4,546)	(1,331)	-	(5,877)
Office improvements	-	(191)	-	(191)
Farm equipment	(184,806)	(1,531)	-	(186,337)
Equipment	(357,337)	(87,799)	-	(445,136)
Sewer system	(4,045,294)	(241,369)	-	(4,286,663)
Total accumulated depreciation	(4,591,983)	(332,221)	-	(4,924,204)
Total capital assets, being depreciated, net	5,965,227	282,490	-	6,247,717
Total capital assets, net	\$ 11,107,222	\$ 437,490	\$ -	\$ 11,544,712

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Notes to the Financial Statements
December 31, 2005

Note 5. Long-term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2005:

	Balance 12/31/2004	Additions	Retirements	Balance 12/31/2005	Current Portion
Revenue bonds payable	\$ 2,726,000	\$ -	\$ 113,000	\$ 2,613,000	\$ 118,000
Total long-term liabilities	\$ 2,726,000	\$ -	\$ 113,000	\$ 2,613,000	\$ 118,000

Revenue bonds payable at December 31, 2005 consists of the following issue:

Parity Sewer Revenue Bond Series 2000 due in annual principal and interest installments ranging from \$37,440 to \$223,000 bearing interest at 4.0%, maturing February 1, 2022.

\$ 2,613,000

Total bonds payable

\$ 2,613,000

The annual requirement to amortize revenue bonds payable at December 31, 2005 is as follows:

Fiscal Year Ended Dec 31	Parity Sewer Rev Bond - 2000	
	Principal	Interest
2006	\$ 118,000	\$ 104,520
2007	123,000	99,800
2008	128,000	94,880
2009	133,000	89,760
2010	138,000	84,440
2011-2015	777,000	334,840
2016-2020	947,000	166,360
2021-2022	249,000	11,400
Total	<u>\$ 2,613,000</u>	<u>\$ 986,000</u>

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Notes to the Financial Statements
December 31, 2005

Note 6. Restricted Net Assets

At December 31, 2005, the District's restricted net assets consists of the following:

Debt service	
Bond fund	\$ 203,977
Reserve fund	161,044
Total debt service	<u>365,021</u>
Impact fee uses	2,977,915
Total restricted	<u><u>\$ 3,342,936</u></u>

Note 7. Retirement Plan

Plan Description

The District contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

ASH CREEK SPECIAL SERVICE DISTRICT
(A Component Unit of Washington County, Utah)
Notes to the Financial Statements
December 31, 2005

Note 7. Retirement Plan, Continued

Funding Policy

In the Local Governmental Noncontributory Retirement System, the District is required to contribute 11.09% of the employee's annual covered salary. The contribution rate is the actuarially determined rate, and is approved by the Board as authorized by Chapter 49.

The required contributions and amounts received for the 2005 calendar year and the two previous years are as follows:

	Year Ended 12/31	Employee paid contributions	Employer paid for employee contributions	Employer contributions	Salary subject to retirement contributions
Noncontributory System:					
Local Governmental Division					
	2005	\$ -	\$ -	\$ 43,740	\$ 394,419
	2004	-	-	35,048	337,133
	2003	\$ -	\$ -	\$ 27,599	\$ 301,113
Defined Contribution System:					
457 Plan	2005	\$ 4,449	\$ -	-	
	2004	2,951	-	-	
	2003	\$ 2,939	\$ -	-	
401(k) Plan	2005	\$ 1,852	\$ -	-	
	2004	4,517	-	-	
	2003	\$ -	\$ -	-	

The contributions were equal to the required contributions for each year.

OTHER COMMUNICATIONS
FROM
INDEPENDENT AUDITORS

**KEMP BURDICK**

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on
Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT COX
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

Superintendent and Members of the Board
Ash Creek Special Service District
La Verkin, Utah

We have audited the financial statements of the Ash Creek Special Service District, a component unit of Washington County, and have issued our report thereon dated April 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance, which we have reported to management of the District in the findings and recommendations letter dated April 21, 2006.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which have reported to management of the District in the accompanying findings and recommendations letter dated April 21, 2006.

This report is intended for the information of the Superintendent, District Board, management and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
April 21, 2006



KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

**Independent Auditors' Report on Compliance with
State Laws and Regulations Based on an Audit
of Basic Financial Statements Performed
in Accordance with the
State of Utah Legal Compliance Audit Guide**

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT COX
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

Superintendent and Members of the Board
Ash Creek Special Service District
La Verkin, Utah

We have audited the accompanying financial statements of Ash Creek Special Service District; a component unit of Washington County; for the year ended December 31, 2005, and have issued our report thereon dated April 21, 2006. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2005.

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Special Districts
Impact Fees and Other Development Fees
Other General Compliance Issues

The District did not receive any major or nonmajor State grants during the year ended December 31, 2005.

The management of Ash Creek Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying findings and recommendations letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Ash Creek Special Service District complied, in all material respects, with the general compliance requirements identified for the year ended December 31, 2005.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.

April 21, 2006



KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

**ASH CREEK SPECIAL SERVICE DISTRICT
Findings and Recommendations
For the Year Ended December 31, 2005**

Superintendent and
Members of the Board
La Verkin, Utah

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT COX
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

During our audit of the fund of the Ash Creek Special Service District for the year 2005, we noted areas needing corrective action in order for the District to be in compliance with laws and regulations and we found circumstances that, if improved, would strengthen the District's accounting system and control over its assets. These items are discussed below for your consideration:

Compliance Findings and Recommendations:

05-01. Form I-9, Employment Eligibility Verification

Finding

All U.S. employers are responsible for completion and retention of Form I-9 for each individual they hire for employment in the United States. This includes citizens and noncitizens. On the form, the employer must verify the employment eligibility and identity documents presented by the employee and record the document information on the Form I-9.

Recommendation

We recommend that the District complete and retain Form I-9 for each employee currently employed by the District. Furthermore, we recommend the District begin completing and retaining Form I-9 for individuals hired by the District in the future.

05-02. Impact Fee Accounting

Finding

The State of Utah Legal Compliance audit guide states the following:

"Each local political subdivision collecting impact fees shall:

- a. establish separate interest bearing ledger accounts for each type of public facility for which an impact fee is collected;
- b. deposit impact fee receipts in the appropriate ledger account;

- c. retain the interest earned on each fund or account in the fund or account; and
- d. at the end of each fiscal year, prepare a report on each fund or account showing:
 - 1) the source and amount of all monies collected, earned, and received by the fund or account; and
 - 2) each expenditure from the fund or account.

This report is a public document and should be available for public inspection during regular office hours. (*Utah Code 11-36-301*)”

During the 2006 session of the legislature, S.B. 267 was passed requiring additional reporting for impact fees. Effective May 1, 2006 local government entities need to identify, on an annual basis, in their financial report, impact fees by the year in which they were received, the project from which the funds were collected, the capital project for which the funds are budgeted, and the projected schedule for expenditure.

We concluded during our test work, that impact fees are being collected properly and spent in accordance with State law; however, as stated in item d. above, a report was not prepared by management at year end to show an accounting for the impact fees. In addition, the balance in the PTIF account that is used to account for impact fees does not equal the amount restricted for impact fee uses.

Recommendation

We recommend that management prepare an accounting as specified above at the end of each fiscal year for impact fees to comply with State law and the newly issued S.B. 267. As the schedule is prepared, it should clearly indicate whether the impact fees have been spent within the six year time frame as designated by law. The prepared schedule should also match the balance in the PTIF account that is designated for impact fees.

General Findings and Recommendations:

05-01. Segregation of Duties

Findings

We understand that the size of the District and its administrative staff prohibit the complete and proper segregation of duties within its accounting functions; as a result, custody of assets and recording functions are not properly segregated for the cash receipts and expenses/accounts payable functions. Management has implemented controls such as management's review of disbursements that mitigate this weakness such that it is not deemed to be a material weakness; however, such segregation of duties provide important safeguards and controls to insure the proper recording, deposit and disposition of the District's funds.

Recommendation

As the District continues to grow and additional staff are considered necessary, we recommend that management consider ways that segregation of duties can be achieved within its accounting and administrative functions. We would be glad to assist the District in the design and/or implementation of job descriptions and duties to properly

achieve this segregation. We also recommend that management continue to monitor disbursements.

05-02. Inventory

Finding

During our review of the District's board meeting minutes, we noted that the District occasionally purchases substantial amounts of pipe for use on future projects to avoid price increases. Even though a considerable amount of pipe had not been used by year end, all pipe that was purchased during the year was either expensed or capitalized and depreciated as part of the sewer system capital asset as opposed to establishing an inventory account.

Recommendation

If unused pipe is on hand at year end, we recommend the District count the pipe at year end and record inventory accordingly.

05-03. Balance Sheet Accounts

Finding

At the beginning of our audit we noted that the District does not properly account for certain balance sheet accounts. Specifically, capital assets and long-term liabilities are not included on the balance sheet. Capital assets are being expensed as opposed to being capitalized. Liability payments are being expensed in full instead of the principal payments reducing the liability accounts.

Recommendation

We recommend that the District account for all balance sheet accounts. Fixed assets should be properly capitalized as capital assets and the principal portion of liability payments should reduce the appropriate liability account instead of being recorded as an expense.

05-04. Farm Cash Receipts / Controls

Finding

Again, we understand that the size of the District and its administrative staff prohibit the complete and proper segregation of duties within its accounting functions; however, while obtaining our understanding of internal controls, we noted that the farm cash receipting cycle is susceptible to misappropriation of assets. The farm coordinator receipts cash and relays the cash to the clerk to deposit and record. The farm coordinator records transactions in a book, but the book is rarely reviewed. Consequently, the current system provides an opportunity for misappropriation of assets.

Recommendation

We recommend that the District improve its controls over farm cash receipts by periodically reviewing the transactions recorded by the farm coordinator and comparing those transactions with those recorded in the general ledger. As an alternative, the District could require farm customers to pay for their goods through the District office as opposed to paying the farm coordinator.

Responses

Please respond to the above findings and recommendations in letter form for submission to the State Auditor's office as required by State law.

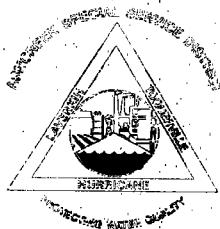
This letter is intended solely for the use of the Superintendent, District Board, management and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the District this past year. We would like to express special thanks to each of you who assisted us so efficiently in this year's audit, especially Darrel Humphries. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant professional relationship.

Sincerely,

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
April 21, 2006



Ash Creek Special Service District

111 S. Main Street, P.O. Box 361, LaVerkin, UT 84745

435 635-2348 Fax: 435 635-8550

E-mail: ashcreek@infowest.com

ASH CREEK SPECIAL SERVICE DISTRICT

Response to Findings and Recommendation

For the Year Ended December 31, 2005

May 23, 2006

Kemp, Burdick, Hinton & Hall, L.C.
63 S. 300 E., Suite 100
St. George, UT 84770

Compliance Findings and Recommendations:

05-01 Form I-9, Employment Eligibility Verification

Response

The District is in the process of having all employees complete form I-9. The form has been included in the District packet to be filled out by all future employees.

05-02 Impact Fee Accounting

Response

The District has started a detailed account that shows all impact fees funds that have been collected and spent during 2006.

General Findings and Recommendations:

05-01 Segregation of Duties

Response

The District will continue to segregate financial duties as additional staff is hired. Until that time, the District will continue to have management and board reviews of income and expenses.

05-02 Inventory

Response

It is unusual for the District to have an inventory of pipe at the end of the year as pipe is normally purchase on an as needed basis. The excess pipe will be used in 2006. In the future the District will inventory excess materials at year end.

05-03 Balance Sheet Accounts

Response

In the past these items have been part of the audit and done with the auditors at year end. The District will start to start to account for all balance sheet accounts at this time.

05-04 Farm Cash Receipts/Controls

Response

The District will be requiring that the farm coordinator fill out a three part receipt book. One of the receipts will accompany the check/cash when turned into the office. These receipts will be correlated between the farm coordinator's receipt book and the general ledger for accuracy.

We appreciate the excellent service that your firm has provided us this year. We would especially like to thank Chad Atkinson and David Wittwer for their hard work. If there is any further information you need, please feel free to contact us at the District office.

Sincerely,

Darrel Humphries, Clerk
Ash Creek Special Service District